

Meeting: International Public Sector Accounting Standards Board

Meeting Location: Lisbon, Portugal

Meeting Date: September 24–27, 2019

Agenda Item 7

For:

Approval

Discussion

Information

REVENUE WITH PERFORMANCE OBLIGATIONS (ED 70)

Project summary	<p>The aim of the project is to develop one or more IPSAS covering revenue transactions (exchange and non-exchange) in IPSAS.</p> <p>The scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede guidance currently located in IPSAS 9, <i>Revenue from Exchange Transactions</i>, IPSAS 11, <i>Construction Contracts</i>, and IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>.</p>	
Meeting objectives Project management	Topic	Agenda Item
	Revenue with Performance Obligations (ED 70): Project Roadmap	7.1.1
	Instructions up to Previous Meeting	7.1.2
	Decisions up to Previous Meeting	7.1.3
Decisions required at this meeting	Analysis of the Disclosure Requirements in Exposure Draft 70, Revenue with Performance Obligations	7.2.1
Other supporting items	None.	

REVENUE WITH PERFORMANCE OBLIGATIONS (ED 70): PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2015	1. Approve Project Brief
June 2016	1. Discussion of the performance obligation approach with the Consultative Advisory Group
June 2017	1. Approve Consultation Paper
March 2018	1. Review Responses to the Consultation Paper
June 2018	1. Review Responses to the Consultation Paper
September 2018	1. Review Responses to the Consultation Paper
December 2018	1. Review Responses to the Consultation Paper
March 2019	1. Preliminarily approve the core text and authoritative guidance of the Exposure Draft
December 2019	1. Approve Exposure Draft
March 2020	1. None Planned
June 2020	1. None Planned
September 2020	1. Review Responses
December 2020	1. Discuss Issues
March 2021	1. Discuss Issues 2. Develop IPSAS
H2 2021	1. Approve IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
June 2019	1. Explain, in the Basis for Conclusions, the IPSASB's decision to retain paragraph 8(e) with a potential requirement for additional disclosures to be considered with all other presentation and disclosure issues.	1. Basis for Conclusions to be finalized in December 2019.
June 2019	2. Prepare a Basis for Conclusions paragraph that explains the IPSASB's decision to retain the term "Transaction price".	2. Basis for Conclusions to be finalized in December 2019.
June 2019	3. Consider the need for Application Guidance, an additional example, and Basis for Conclusions paragraphs on "Stand-alone price," as well as replacement of the terms "sell" and "sold" with "provide" and "provided".	3. The Task Force has proposed additional Application Guidance to address this instruction—see Project Update Presentation. However, the Basis for Conclusions will be finalized in December 2019.
June 2019	4. Reconsider whether to modify Illustrative Example 7.	4. Illustrative Examples to be finalized in December 2019.
June 2019	5. Retain example 63 and solicit input from Board members on real-life examples.	5. Illustrative Examples to be finalized in December 2019.
June 2019	6. Consider if the Illustrative Examples on contract costs in IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts, should be incorporated into ED 70.	6. Illustrative Examples to be finalized in December 2019.
June 2019	7. Consider including a Basis for Conclusions paragraph that explains Illustrative Examples are not authoritative, and that core commercial transactions are illustrated in IFRS 15, <i>Revenue from Contracts with Customers</i> .	7. Basis for Conclusions to be finalized in December 2019.
June 2019	8. Work on the Illustrative Examples that will be presented to the IPSASB in the December 2019 meeting.	8. Illustrative Examples to be finalized in December 2019.
June 2019	9. Mark up changes to the Basis for Conclusions and present them to the IPSASB in the December 2019 meeting.	9. Basis for Conclusions to be finalized in December 2019.
June 2019	10. Include a Basis for Conclusions paragraph that explains the approach the IPSASB has taken in determining which examples should be brought over from	10. Basis for Conclusions to be finalized in December 2019.

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	IFRS 15 and which additional examples should be included.	
June 2019	11. If changes to the examples are recommended by the Task Force, include the draft changes with the recommendations.	11. Illustrative Examples to be finalized in December 2019.
June 2019	1. Develop a disclosure where collection of consideration is not probable by an entity compelled by legislation to enter a binding arrangement and present it along with all disclosures at the September 2019 IPSASB meeting.	1. See Agenda Item 7.2.1.
June 2019	2. Reconsider whether changes are required to paragraphs 14 and 15, and/or application guidance is needed, as a result of the decision to retain paragraph 8(e).	2. See Project Update Presentation.
June 2019	3. Review ED 70 for consistent and appropriate use of the term “third-party beneficiary”.	3. See Project Update Presentation.
June 2019	4. Confirm the definition of “third-party beneficiary” and ensure that it is consistent in ED 70, <i>Revenue with Performance Obligations</i> (ED 70), ED 71, <i>Revenue without Performance Obligations</i> (ED 71), and ED 72, <i>Transfer Expenses</i> (ED 72).	4. See Project Update Presentation.
June 2019	5. Review ED 70 for consistent and appropriate use of the terms “stand-alone price,” “provide,” and “provided”.	5. See Project Update Presentation.
June 2019	6. Reinstate the term “distinct”.	6. See Project Update Presentation.
March 2019	1. Consider the suitability of the disclosures requirements in ED 70 for the public sector at the September 2019 Board meeting, alongside those proposed for ED 71 and ED 72.	1. See Agenda Item 7.2.1.

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
June 2019	1. The IPSASB agreed to the revised objective paragraphs including the 5-step approach to revenue recognition.	1. ED 70.BC14
June 2019	2. The IPSASB agreed to retain paragraph 8(e) with a requirement for additional disclosures where collection of consideration is not probable.	2. ED 70.BC46 to BC51
June 2019	3. The IPSASB agreed to retain the terms and definitions of “binding arrangement asset” and “binding arrangement liability”.	3. ED 70.BC25 to BC26
June 2019	4. The IPSASB agreed to: <ul style="list-style-type: none"> • Include the definition of “third-party beneficiary” and add “third-party beneficiary” to “purchaser” in the appropriate contexts; • Not define “counterparty”; • Retain the term and definition of “transaction price”; and • Retain the term “distinct”. 	4. ED 70.BC29, BC36
June 2019	5. The IPSASB agreed to: <ul style="list-style-type: none"> • Replace the term “stand-alone selling price” with the term “stand-alone price”; • Replace the terms “sell” and “sold” with the terms “provide” and “provided”. 	5. ED 70.BC34 to BC35
June 2019	6. The IPSASB agreed to: <ul style="list-style-type: none"> • Retain or modify most of the IFRS 15 examples as they illustrate the application of different parts of ED 70; • Include additional examples regarding scope, hybrid (ED 70 and ED 71) transactions, enforceability by mechanisms other than legal means, and three-party arrangements. 	6. Illustrative Examples to be finalized in December 2019.
March 2019	1. After a page-by-page review, the IPSASB gave preliminary approval for the core text and authoritative guidance of the draft Exposure Draft (ED), subject to further review by the Task Force and the Technical Director prior to the June 2019 meeting, and any further changes identified as necessary during development of the examples.	1. ED 70.BC6 to BC12
March 2019	2. The Board decided to change the title of the ED 70, <i>Revenue from Binding Arrangements with Purchasers</i> and adopt the working title, <i>Revenue from Performance Obligations</i> .	2. ED 70.BC13

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March 2019	3. The Board decided to amend the objective of the ED 70 to clarify that the objective of ED 70 applies to binding arrangements with purchasers that include performance obligations.	3. ED 70.BC14
March 2019	4. The Board replaced the example of non-monetary exchanges between entities in the same line of business to facilitate sales to potential customers of oil and milk with electricity, because it is more suitable to the public sector.	4. ED 70.BC20
March 2019	5. The Board decided to add revenue transactions without performance obligations that are in the scope of IPSAS 23, <i>Revenue from Non-exchange transactions (Taxes and Transfers)</i> and transactions in the scope of IPSAS 40, <i>Public Sector Combinations</i> as additional scope exclusions in the ED 70.	5. ED 70.BC4
March 2019	6. The Board decided to retain the definition of the term, "revenue" in IPSAS 1, <i>Presentation of Financial Statements</i> in the ED 70.	6. ED 70.BC31
March 2019	7. The Board decided to retain the definition of the term, "customer" in the ED 70.	7. ED 70.BC28
March 2019	8. The Board decided to modify the definition of purchaser in the ED 70 so that it mirrors the definition in the Grants and Transfers – Expense Project.	8. ED 70.BC 27
March 2019	9. The Board decided to replace the term, "customary business practices" with the term, "entity's customary practices".	9. ED 70.BC12
March 2019	10. The Board decided to replace the term, "industry" with the term, "sector".	10. ED 70.BC12
March 2019	11. The Board decided to replace the term, "commercial objective" with the term, "objective" rather than "economic objective" because "economic objective", could have a different connotation for the public sector.	11. ED 70.BC52
March 2019	12. The Board decided to amend certain paragraphs in ED 70 that are based on the latest guidance on leases in IFRS 16, <i>Leases</i> to align ED 70 to requirements on leases in IPSAS 13, <i>Leases</i> .	12. Core text amended, but Basis for Conclusions to be finalized in December 2019.
December 2018	1. The Board decided to approve the scope of the draft Standard.	1. ED 70.BC15
December 2018	2. The Board decided to replace the term, "Customer" with the broader term, "Purchaser".	2. ED 70.BC27
December 2018	3. The Board decided to complement the definition of a binding arrangement by specifying criteria that must be met before an entity can apply the revenue recognition model to that binding arrangement.	3. ED 70.BC12

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December 2018	4. The Board decided to retain the criteria used in IFRS 15 for revenue transactions, which would be within the scope of IFRS 15.	4. ED 70.BC53
September 2018	1. The Board decided to accept the proposed "Amendments to Other IPSAS".	1. ED 70.BC12
September 2018	2. The Board decided to replace "commercial substance" with "economic substance".	2. ED 70.BC45
September 2018	3. The Board decided to remove the term, "ordinary" and explore the scope to identify whether items such as gains on sale of property, plant and equipment, foreign exchange gains, and interest are within the scope of the draft Standard.	3. ED 70.32
September 2018	4. The Board decided to retain the methods used to estimate stand-alone selling price and add explanatory text, stating that, where appropriate, the Expected Cost plus Margin approach is also applicable to goods and services that are provided on a cost-recovery basis.	4. ED 70.BC56
September 2018	5. The Board decided to retain the terms, "Goods and Services".	5. ED 70.BC12
September 2018	6. The Board decided to retain the terms, "Consideration" and "Exchange".	6. ED 70.BC12
September 2018	7. The Board decided to replace the terms, "Contract Asset" and "Contract Liability" with the terms "Binding Arrangement Asset" and "Binding Arrangement Liability".	7. ED 70.BC24
September 2018	8. The Board decided to use the term, "Binding Arrangement", which will encompass the terms, "Contract" and "Other Binding Arrangements".	8. ED 70.BC23
June 2018	1. The Board decided that, in dealing with Category C revenue transactions, there are no major public sector issues that warrant departure, after considering the alignment with IFRS 15, <i>Revenue from Contracts with Customers</i> .	1. ED 70.BC6 to BC8
June 2018	2. The Board decided to retain the term "Fair Value" until the project on Public Sector Measurement is concluded.	2. ED 70.BC12
June 2018	3. The Board decided to approve the terminology changes, and, with some clarifications, the definitions.	3. ED 70.BC21
June 2018	4. The Board decided to proceed with the PSPOA for appropriate transactions that were classified as Category B in the Consultation Paper, <i>Accounting for Revenue and Non-Exchange Expenses</i> .	4. ED 70.BC16 to BC19

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March 2018	1. The Board decided to progress with a convergence project on IFRS 15, <i>Revenue from Contracts with Customers</i> .	1. ED 70.BC3
June 2017	1. All decisions made up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .	1. See Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .

Analysis of the Disclosure Requirements in Exposure Draft 70, *Revenue with Performance Obligations***Question**

1. Does the IPSASB agree with the Task Force's recommended amendments of the disclosure requirements in Exposure Draft 70, *Revenue with Performance Obligations* (ED 70)?

Detail

2. At the June 2019 IPSASB Meeting, the Board instructed the Revenue Task Force and Staff to consider the disclosure requirements in ED 70. In particular:
 - (a) A number of Board members questioned whether all the disclosure requirements of ED 70, which is based on IFRS 15, *Revenue from Contracts with Customers* (IFRS 15), were necessary. These Board members were concerned that the current disclosure requirements may be too onerous, particularly for consolidated government entities, as some disclosures are either: 1) not material when compared to the revenue-generating activities carried out by a public sector entity which are outside the scope of ED 70; or 2) not applicable to the transactions carried out by public sector entities;
 - (b) The Task Force and Staff were instructed to propose additional disclosure requirements for transactions that an entity was compelled to enter where the collection of consideration is not probable, as described in ED 70.8(e); and
 - (c) In adapting IFRS 15 for use in the public sector, a number of changes were made to the defined terms, as well as the guidance on recognition and measurement, in ED 70. Examples of such changes include the use of the "binding arrangement" concept rather than a "contract", and recognition of revenue upon, or as, goods or services are transferred to third-party beneficiaries. Additional changes to disclosures may be required in light of these changes.

Overall Approach

3. The Task Force noted that the guidance regarding the recognition and measurement of revenue transactions with performance obligations was adapted from IFRS 15 in its entirety and incorporated into ED 70 with limited modifications. The objective of the disclosures, as noted in paragraph 110 of ED 70, is to provide information to enable financial statement users to understand the nature, amount, timing and uncertainty of this revenue. Therefore, the Task Force agreed that a reasonable approach would be as follows:
 - (a) Retain all disclosure requirements from IFRS 15 in ED 70, as no underlying concepts regarding recognition and measurement from IFRS 15 were excluded;
 - (b) Remove only certain requirements (if any) which are not expected to be material or are clearly of limited or no applicability to the public sector; and
 - (c) Add additional disclosure requirements for public sector-specific concepts which were introduced to ED 70 when adopting IFRS 15 for use in the public sector.

Disclosures that are not Expected to be Material in the Public Sector

4. To address certain disclosures which are expected to be immaterial in the public sector, the Task Force proposes to add the following text to reinforce that specific disclosures requirements which are not material need not be satisfied:

112 In making the disclosures required by this [draft] Standard, an entity shall consider the requirements of paragraphs 45 to 47 of IPSAS 1, Presentation of Financial Statements, which provide guidance on materiality and aggregation. A specific disclosure requirement in this [draft] Standard need not be satisfied if the information is not material.

5. The explicit highlight to consider materiality and the reference to IPSAS 1, *Presentation of Financial Statements*, is consistent with the precedent set in IPSAS 42, *Social Benefits*. The wording of the proposed text to disregard disclosure requirements that are not material is also consistent with paragraph 47 of IPSAS 1.

Disclosures that are not Expected to be Applicable in the Public Sector – Paragraphs 116 and 118

6. The Task Force considered removing paragraphs 116 and 118, as it was suggested that the details required by these paragraphs would not provide useful information on whether a public sector entity is achieving its objectives. Paragraphs 116 and 118 of ED 70 require the disclosure of the changes between opening and closing balances of accounts receivable, binding arrangement assets, and binding arrangement liabilities, with details on reconciling items such as collections, recognition of revenue that was previously recorded as a binding arrangement liability, changes due to public sector combinations, impairment of binding arrangement assets, etc.
7. The Task Force ultimately decided to retain paragraphs 116 and 118 for the following reasons:
 - (a) The information regarding changes in revenue-related account balances, especially details such as impairment of binding arrangement assets or the amount of binding liabilities which have been recognized as revenue, is critical in providing financial statement users with an understanding of the nature, amount, timing and uncertainty of revenue and cash flows from binding arrangements.
 - (b) With the addition of paragraph 112, the Task Force was also satisfied that a public sector entity would not provide overly detailed disclosures that are not material.

Disclosures that are not Expected to be Applicable in the Public Sector – Paragraph 119

8. The Task Force also reviewed paragraph 119, which requires the disclosure of the nature of goods or services an entity has promised to transfer, the timing of when the entity typically satisfies its performance obligations, significant payment terms, and related obligations such as returns, refunds or warranties.
9. It has been suggested that the information required by paragraph 119 would only be useful for a narrow subset of public sector entities where substantially all revenues consisted of transactions within the scope of ED 70. For many other public sector entities, particularly for consolidated government entities, substantially all of the entity's revenues are expected to be within scope of ED 71, while only some incidental revenue streams will be within the scope of ED 70. For these entities, if the revenue streams within the scope of ED 70 are individually insignificant but material in aggregate, the application of paragraph 119 may result in disclosures which are either too detailed

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and onerous if each revenue stream is disclosed individually, or too obscured by the blending of items that are substantially different if all ED 70 revenue streams are disclosed on an combined basis.

10. The Task Force ultimately decided to retain paragraph 119 for the following reasons:
 - (a) The information required by paragraph 119 provides useful information on the nature, amount, timing and uncertainty of revenues to financial statement users, so it would be important to retain these disclosure requirements.
 - (b) The concerns noted above relate to materiality and the appropriate level of aggregation for these disclosures. While it is not possible to provide specific guidance on materiality and aggregation for all possible scenarios, the Task Force was satisfied that paragraph 110 and the addition of paragraph 112 would prompt a public sector entity to consider materiality and aggregation in its disclosures.

Disclosures Regarding Compelled Transactions where Collection is not Probable

11. The Task Force proposes to add the following disclosure requirements regarding compelled transactions where the collection of consideration is not probable:

120 In the public sector, an entity may be compelled by legislation or other governmental policy decisions to satisfy a performance obligation regardless of the purchaser's ability to pay for the goods or services (see paragraph AG32). In addition to the information in paragraph 119, an entity shall disclose the following:

- (a) A description of the legislation or policy decision which compels the entity to satisfy the performance obligation;*
- (b) The amount of revenue from these transactions that was recognized after application of paragraphs 13 - 15 of this [draft] Standard; and*
- (c) The amount from these transactions that was not recognized as revenue, as the collection of consideration was not probable*

12. The Task Force instructed the Staff to draft an example to illustrate these disclosure requirements. The Staff will draft and present this example to the IPSASB at the December 2019 meeting, along with the other illustrative examples in ED 70.

Other Changes to Disclosure Requirements

13. In addition to the above proposed amendments, the Staff has modified some disclosures to reflect the changes made to adapt IFRS 15 for use in the public sector. These modifications were made prior to the June 2019 IPSASB Meeting.

Decisions required

14. Does the IPSASB agree with the Task Force's recommendations?